To: Interested Parties

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Subject: Pro-Family Tax Provisions in 2025

Next year's negotiations over expiring provisions of 2017's Tax Cuts and Jobs Act offers the opportunity to meaningfully advance pro-growth priorities and much-needed economic relief for American families. Former President Trump and Vice-President Harris have both expressed interest in delivering for parents if they take the White House.

This memo lays out key pro-family tax policy reforms we encourage you to incorporate in any discussions and negotiations. As you identify opportunities to improve the tax code, we and our partners strongly urge you to prioritize working parents and proactively seek out ways to bolster family life.

- 1) Increase the top-line value of the Child Tax Credit to at least \$3,000,
- 2) Improve the Child Tax Credit's ability to deliver for working-class households
- 3) Reduce marriage penalties by eliminating Head of Household filing status
- 4) Curb improper payments by expanding Social Security Number requirements
- 5) Provide immediate economic support to parents at the time of childbirth

Increase the top-line value of the Child Tax Credit to at least \$3,000

Across our nation, family formation is in decline and the costs associated with raising a child continue to increase. The Child Tax Credit (CTC) is the federal government's primary tool for recognizing the costs parents incur as they do the priceless work of raising the next generation. In 2017, Congress paired the elimination of the dependent exemption with the historic doubling of the Child Tax Credit to ensure parents benefited from tax reform. That provision expires in 2025. Unless Congress acts, the CTC will revert back from \$2,000 to \$1,000 – an effective tax increase on millions of working families.

Additionally, the inflation that skyrocketed during the Biden administration has already weakened the impact of the CTC. The nominal real value of the credit has decreased 20% since 2018. To simply keep up with inflation, Congress would need to increase the per-child amount to roughly \$2,500. But Congress should aim to improve the CTC's ability to keep more money in parents' pockets by boosting the credit's value to at least \$3,000 per child.

Given the overall constraints facing any tax package, a \$3,000 top-line value for the CTC would be a significant increase while remaining fiscally prudent. Over a ten-year budget window, we tentatively

estimate this level of expansion, coupled with the expanded support for working-class families detailed below, would roughly cost in the ballpark of \$700 billion assuming a baseline extension of TCJA's changes to the Child Tax Credit.¹ Each of the presidential campaigns have suggested increasing the headline amount of the CTC. Congress should similarly prioritize steps to deliver essential economic relief to American families.

Improve the Child Tax Credit's ability to deliver for working-class households

Simply raising the top-line number of the CTC delivers limited benefits to many hard working parents. Take a household with two children and one working parent earning \$30,000 – assuming no other credits or deductions, they would be in the 10% marginal tax bracket and owe \$80 in federal income taxes. The nonrefundable portion of the CTC wipes out that liability. Because their income tax owed is less than \$4,000 (the maximum theoretical CTC for two children at home), they receive a refund check for a portion of the difference – in this case, \$3,400, for a total of \$3,480 through the CTC. A family with \$38,000 in earnings, by contrast, would receive a total of \$4,000 in a combination of the CTC's refundable and nonrefundable components.

In 2017, Congress agreed to slowly raise the cap on how much the CTC households could claim as a refund; that amount is currently \$1,700. Removing that cap so that the entire CTC can phase-in with earnings at an appropriate rate would directly increase the amount of support for working-class families. Preliminary estimates suggest phasing in the credit at the first dollar of income and eliminating the refundability cap would amount to approximately \$70 billion over a 10-year budget window.

Additionally, because of the way the credit is calculated, it takes more earnings for moderate-income families with multiple children to fully benefit from the CTC relative to their peers with only one child. Switching the refundable credit calculation to a per-*child* from than per-*household* basis could ensure the CTC does not penalize larger families.

Reduce marriage penalties by eliminating Head of Household filing status

The Head of Household filing status, which provides single parents with a larger standard deduction and wider tax brackets, adds complexity to the tax code, disproportionately benefits high-income households, and penalizes marriage for many cohabitating parents.

Head of Household status hardly benefits low-income single parents, who tend to have little federal income tax liability, and delivers the bulk of its benefits to upper-income single parents. Expanding the CTC would provide a more straightforward way to support <u>all</u> families. Moreover, by providing tax benefits that are greater for two unmarried individuals relative to what they would receive if they were married, the tax code inadvertently subsidizing cohabitation, a less-stable form of family formation, over marriage. Eliminating the Head of Household filing status and expanding the CTC would improve the tax code while ensuring most families are left better off.

¹ A microsimulation modeling tool provided by <u>PolicyEngine</u>, using typical labor market elasticities from the Congressional Budget Office produces an estimate of roughly \$726 billion over ten years. Another <u>tool</u> prepared by the Committee for a Responsible Federal Budget suggests a ten-year budget score of around \$866 billion. Neither tool allows for a comprehensive modeling based on the provisions we outline in this memo.

Curb improper payments by expanding Social Security Number requirements

The Social Security Administration issues a Social Security Number (SSN) to citizens, permanent residents, people granted asylum, and refugees authorized to work in the United States. Undocumented immigrants — who are not authorized to live or work in the United States — are not eligible for an SSN, which is required for claiming most federal benefits. Most countries take a similar approach because it helps reduce fraud and improper payments.

Congress had these concerns in mind when it began requiring families claiming the earned income tax credit to provide SSNs for parents and children in 1996. Congress took similar steps as part of the Tax Cuts and Jobs Act, requiring families claiming the CTC to provide an SSN for each eligible child - but continuing to allow families to claim it without parents providing an SSN.

Extending the child tax credit's SSN requirement to parents would curb fraud and improper payments, help streamline eligibility by making the requirements consistent across the EITC and CTC, and reduce the overall cost of any further credit expansion.

Provide a newborn credit to parents at the time of childbirth

There's nothing more pro-family than trying to soften the costs associated with welcoming a new child into the world. This includes smoothing over those periods of postpartum expenses, forgone income, and physical recovery for new mothers. If we want to help parents defray the cost of becoming parents, we should financially support them.

A \$2,000 newborn credit is a high-salience way to signal support for parenthood, assist parents who do not have access to either private or public paid leave options, and deliver resources to families when they need it most. It could be built into the application process for a Social Security number, where hospitals submit the information to the state's bureau of vital statistics. Adding an option for households with their own valid SSN number to receive their baby bonus via direct deposit at the same time or soon after their new baby's number is issued would not require a heavy administrative lift. This benefit would not alter work incentives but provide temporary, short-term bridge for families adjusting to the new realities of parenthood. A one-time payment of \$2,000 per child would likely be reasonably cost-effective, with an estimated 10-year score of roughly \$70 billion. Congress should also explore opportunities to provide more material assistance to pregnant women and their families, such as that included in Senator Romney's recently-introduced Family Security Act.

Conclusion

2025 presents a unique opportunity to build upon the successes of the Tax Cuts and Jobs Act and deliver a tax code that promotes family flourishing and removes barriers to marriage and work. We hope these recommendations are helpful as you balance these and other policy priorities, and work to create timely, fiscally responsible updates to federal family benefits through the tax code.